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T.N - Q1 2025 AT&T Inc Earnings Call

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Company Summary

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PRESENTATION

Operator

Good morning and welcome to AT&T's first quarter of 2025 earnings call. (Operator Instructions) And as a reminder, this conference is being recorded.

I would now like to turn the conference call over to our host Brett Feldman, Senior Vice President, Finance and Investor Relations. Please go ahead.

Brett Feldman - *AT&T Inc - Senior Vice President, Finance & Investor Relations*

Thank you and good morning. Welcome to our first quarter call. I'm Brett Feldman, Head of Investor Relations for AT&T. Joining me on the call today are John Stankey, our Chairman and CEO; and Pascal Desroches, our CFO.

Before we begin, I need to call your attention to our Safe Harbor statement. It says that some of our comments today may be forward-looking. As such, they're subject to risks and uncertainties described in AT&T's SEC filings. Results may differ materially. Additional information, as well as our earnings materials are available on the Investor Relations website.

With that, I will turn the call over to John Stankey. John?

John Stankey - *AT&T Inc - Chairman of the Board, Chief Executive Officer*

Thanks, Brett. I appreciate everyone joining us this morning. And I'm pleased to share that we followed a strong performance in 2024 with a solid start to 2025. In the first quarter, we reported growth and consolidated service revenue and adjusted EBITDA, driven by strong postpaid phone and fiber net adds.

We also grew adjusted EPS and free cash flow when excluding DIRECTV with both metrics performing consistent with the outlook we provided in March. Pascal will run you through the details of our first quarter results and outlook. So I'm going to use my time to cover two topics that are top of mind for our management team.

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First, I'll review the core operating principles driving our strategy. This includes how our differentiated position is the largest converged provider across 5G and fiber is fueling growth in high value customer relationships. After that, I'll discuss why we expect to deliver on our 2025 financial guidance and commence our planned share repurchases during the second quarter, despite operating in a macro environment with diminished visibility.

So let's start with the core operating principles that are enabling us to drive our long-term strategy forward. As always, we begin with a focus on the customer. This is why we launched the AT&T Guarantee, which is a promise to our customers that we will provide them with connectivity they can depend on, the deals they want and the service they deserved guaranteed, or we'll make it right.

AT&T is the first and only carrier that offers a guarantee for wireless and fiber networks to both consumers and small businesses. The key reason we can make this promise is because of the significant fiber expansion and network modernization investments we're making to be the best connectivity provider in America.

A little over three years ago, we set a target of passing over 30 million total locations with our fiber network by the end of 2025. I'm proud to say that we expect to achieve that target before mid-year as we continue to ramp towards our objective of reaching 50 million-plus total locations with fiber by 2029 through a combination of our organic build, Gigapower and other commercial open access agreements.

We're also making great progress in retiring our legacy copper network as we transition to modern 5G wireless and fiber technology, and we have an opportunity to move even faster following recent FCC orders. We appreciate Chairman Carr and the FCC for their leadership to advance the tech transition and update requirements to better reflect today's technology and competitive marketplace.

Our customer focused, investment-led business model has positioned AT&T as a trusted provider of critical connectivity services. As a result, we're well positioned to drive sustainable growth through a range of market and economic cycles.

Our first quarter results present further evidence that our differentiated strategy is working. We came into the year with an expectation that the wireless industry would see further normalization in net adds and overall activity levels.

So far, this has played out, and to no surprise, we've seen shifts in offers and promotions as the major providers compete for a moderating pool of new customers. Despite a slow January, we were able to fine tune our offers and competed very well against this backdrop for the balance of the quarter. This was especially true within our fiber footprint, which is the largest and fastest growing in the US.

As we have said before, where we have fiber, we win in fiber and 5G. This dynamic continues to drive growth, as shown by our increasing rate of converged customer penetration and significant wireless share gains within our fiber footprint.

These trends continued and, in some cases, strengthened in the first quarter. For example, a significant portion of wireless gross ads that took our lead offers during the first quarter or with converged accounts. This is a key reason why we had more converged household gross adds within our fiber footprint during the first quarter compared to last year.

As a result, our converged penetration continues to climb with more than 4 in 10 AT&T fiber households also now subscribing to our mobility services. This is a key trend because it accounts with both fiber and wireless services, have lifetime values that are more than 15% greater than customers with standalone services.

The message here is that the primary driver of our growth is our success at executing our fiber and 5G playbook, and that our increased investments in customer acquisition and retention, our driving sustained growth in high value customer relationships. The fundamentals of our business are very strong. And we continue to feel confident that our strategy and plans for 2025 are on track.

However, all companies in the US are now operating with less visibility as the administration pursues policies that are intended to facilitate its laudable goal of creating more equitable global trade and improve domestic manufacturing capabilities.

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Like others, we're closely monitoring this journey to rebalance global trade. And its impact on the broader economy. The announced tariffs could potentially increase the cost of smartphones and other devices, as well as the cost of network and technical equipment.

The magnitude of any increase will depend on a variety of factors including how much of the tariffs our vendors pass on, the impact that the tariffs have on consumer and business demand. Based on the 90 day pause on reciprocal tariffs and our visibility into the supply chain, we believe we can manage the anticipated higher costs within the 2025 financial guidance we provided at the beginning of the year.

Our expectations reflect our strong financial performance in the first quarter. The historical resilience of demand for our critical connectivity services across economic cycles and our decision to reduce discretionary expenses and accelerate cost actions that we had planned for later in this year.

That said, this environment remains fluid and will provide further updates based on the ultimate impacts of the reciprocal tariffs. The priorities we laid out in our 2024 Analyst and Investor Day have not changed, and we continue to operate our business to achieve the financial plan, and capital returns we outlined in December.

As we shared during that presentation, these long-term plans are based on an outlook that assumes a macroeconomic environment with low single-digit GDP growth and moderating inflation. If we ultimately face a lower growth environment over this period, we have the option to adjust our operating posture to prioritize cash flow.

This gives us confidence in our ability to execute the expanded capital returns program announced at our Analyst and Investor Day, we plan on commencing share repurchases this quarter. We also continue to evaluate opportunities to deploy our financial flexibility towards strategic investments that complement our organic growth plan, additional capital returns, or further improvements to our balance sheet.

So with that I'll turn it over to Pascal. Pascal?

Pascal Desroches - *AT&T Inc - Chief Financial Officer, Senior Executive Vice President*

Thank you, John, and good morning, everyone. Let's start by reviewing our first quarter financial summary on slide 5. At a consolidated level, total revenues were up 2%, service revenues were up 1.2% and adjusted EBITDA was up 4.4%.

The primary driver of this solid performance was growth in our Mobility and Consumer Wireline businesses, which continues to more than offset secular pressure on Business Wireline. As a reminder, beginning with our first quarter results, adjusted EPS and free cash flow exclude DIRECTV.

Adjusted EPS was $0.51 in the quarter, which was $0.03 higher than the prior year when excluding DIRECTV. First quarter free cash flow was $3.1 billion, which was up more than $350 million on a comparable basis.

First quarter capital investment of $4.5 billion was slightly lower year-over-year due to lower vendor financing payments, reflecting the good progress made in reducing these balances for the past couple of years. For the second quarter, we expect capital investment in the $4.5 billion to $5 billion range and free cash flow of approximately $4 billion, and we continue to expect full year free cash flow of $16 billion-plus.

Now, let's look at the trends we're seeing in our Mobility business on slide 6. Our Mobility business delivered solid results to start the year, growing both revenues and EBITDA in a wireless market that remains both healthy and competitive.

Total Mobility revenues were up 4.7% year-over-year with service revenues up 4.1%. Service revenue growth was primarily driven by strong customer growth, including 324,000 postpaid phone net adds as well as continued postpaid phone ARPU growth. Postpaid phone gross adds increased by about 13% year over year, which more than offset a normalizing trend in churn.

Postpaid phone churn of 0.83% was up 11 basis points from the first quarter last year. This increase was primarily driven by the normalization of customers reaching the end of their equipment promotional financing periods in the fourth quarter, which is a trend we highlighted on our prior call.

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We also saw some shifts in competitive offers during the quarter that impacted churn. Importantly, involuntary churn remained low and consistent with our expectations. Based on the current market dynamic and the return to a more normalized cadence of promotional roll off, we expect postpaid phone churn to remain at a similar level in 2Q with typical seasonality in the back half of the year as we approach the holidays.

First quarter Mobility EBITDA grew 3.5% year-over-year. EBITDA margins of 43% was down 50 basis points versus last year. This was due to increased advertising and marketing spend related to the launch of the AT&T Guarantee, as well as higher spending on customer acquisition and device upgrades.

We're very pleased with the uptake rate of our offers among new and existing high-quality customer cohort. This is evident in our postpaid phone ARPU, which grew 1.8% year-over-year and in the continued growth of our base of converged accounts.

Before I discuss our first quarter Consumer Wireline performance, I want to provide some insights into the trends we're seeing in our Mobility business so far in the second quarter. Postpaid phone net adds remains solid with both gross adds and churn broadly in line with our expectations.

However, upgrades have trended higher than expected since the announcement of the reciprocal tariffs in early April, which we believe triggered an acceleration in consumer upgrade behavior. If upgrade rates remain elevated, this could represent a pull forward from the second half of the year.

Now let's move to Consumer Wireline results on slide 7. In the quarter, Consumer Wireline performance was led by solid broadband subscriber growth for both AT&T Fiber and AT&T Internet Air.

We delivered 261,000 AT&T Fiber net adds, up from 252,000 in the first quarter of last year. This was driven by growth in our consumer locations served with fiber which reached 23.8 million at the end of 1Q and growing contribution of net ads in regions served with Gigapower fiber.

We love the return profile of fiber and the lift that provides our Mobility business only makes investing in fiber more attractive. AT&T Internet Air net adds were 181,000 in the quarter, which is a significant improvement from a year ago driven by broader availability across our distribution channels.

Our combined success with these two services helped us deliver 137,000 total broadband net adds in the quarter. This marks our seventh straight quarter of overall broadband subscriber growth and second consecutive quarter with more than 100,000 broadband net adds.

We grew Consumer Wireline revenue by 5.1% versus the prior year. This was driven by fiber revenue growth of 19%, reflecting subscriber gains and solid fiber ARPU growth of 6.2%. Consumer Wireline EBITDA grew 18.6% for the quarter.

Our first quarter results benefited from vendor settlements that positively impacted our total wireline operating expenses by approximately $100 million, roughly $55 million of the impact was in Consumer Wireline with the rest in Business Wireline. This item has no impact on guidance as it was factored into our full year plan.

Now, let's turn to Business Wireline on slide 8. Starting this quarter, we're providing more detail on the revenue components within Business Wireline to match the disclosures and targets we provided at our Analyst and Investor Day.

Business Wireline revenues declined approximately 9% year-over-year, primarily due to continued pressures on legacy and other transitional services, which declined 17.4%. This was partially offset by growth in fiber and advanced connectivity services which grew 4.5%.

About one-third of these revenues are from value-added services, which are variable on a quarterly basis. The remaining two-thirds, which is predominantly fiber connectivity, is growing at a faster rate and accelerated relative to the fourth quarter. Business Wireline EBITDA declined less than 2% versus the prior year. I want to call out a few factors that contributed to this improved trend.

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On the topline, we benefited from pricing actions on legacy services which helped moderate revenue declines, although we expect this benefit to diminish over the next few quarters. On the expense side, Business Wireline operating and support costs were down about $400 million year over year.

This decrease is due to solid execution against our cost saving initiatives including lower force, contractor and access costs. Lower expenses also reflect the vendor settlements I mentioned earlier, as well as the prior deconsolidation of our cybersecurity business.

While I appreciate that our first quarter EBITDA performance is pacing ahead of plan, some of the favorability was non-recurring, and we are facing an operating environment with less visibility. So we expect to see a normalization in the trajectory of Business Wireline EBITDA during the remainder of the year.

We also saw solid trends across business solutions which includes the contributions from business Mobility and FirstNet. As we announced earlier this month, we now have more than 7 million FirstNet connections, which is a tremendous milestone. We continue to grow connections because FirstNet truly is in a league of its own.

Let's be clear, no matter if it's New York City Police Department, the Fire Department in New York City, the Federal Bureau of Investigation, or any of the nearly 30,000 public safety agencies and organizations that use FirstNet, FirstNet continues its strong momentum and remains the first responder communication solution of choice.

Now, let's move to slide 9 to discuss our capital allocation. Our capital investment is largely driven by our fiber deployment and wireless network modernization. These remain strategic priorities, and we expect these initiatives to remain on pace with the timelines we outlined at our Analyst and Investor Day in December.

We continue to expect our full year capital investment to be in the $22 billion range. During the first quarter, we made further progress on strengthening our balance sheet and reduced net debt by about $1 billion. This was driven by our strong free cash flow and net proceeds related to asset sales and strategic investments, partially offset by $1.2 billion of currency headwinds related to the weakening of the US dollar.

As a reminder, we fully hedge the FX impact on our debt with the offset reported in other liabilities. We ended the quarter with net debt to adjusted EBITDA of 2.63 times versus 2.68 times at the end of last year. We've worked hard at strengthening our balance sheet and continue to operate the business with a net leverage target of net debt to adjusted EBITDA in the 2.5 times range.

Since the beginning of 2020, we have reduced our net debt by $32 billion. Based on this improvement in our balance sheet, expected proceeds from the sale of our 70% stake in DIRECTV and our financial outlook for the remainder of the year, we are now in a position to begin executing on the incremental capital returns we outlined at our Analysts and Investor Day.

We expect to begin share repurchase under our $10 billion authorization this quarter with at least $3 billion completed by year end and the remainder during 2026. We're really pleased with the team's performance and our start to the year, and we're excited to continue to build on this progress.

Brett, that's our presentation. We're now ready for the Q&A.

Brett Feldman - *AT&T Inc - Senior Vice President, Finance & Investor Relations*

Thank you, Pascal. Operator, we're ready to take the first question.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Peter Supino, Wolfe Research.

Peter Supino - *Wolfe Research, LLC - Analyst*

Hi. Good morning. A question on tariffs and another on the growth environment. If tariffs increase the cost of phones, I wonder how you would envision AT&T and the industry potentially reacting to that on a sustained basis?

And then with your comments on the possibility of a slower growth environment, I wonder if you could refresh us on the expense reduction opportunity outside of Consumer Wireline and what else you might have in mind for a slower growth marketplace? Thank you.

John Stankey - *AT&T Inc - Chairman of the Board, Chief Executive Officer*

Good morning. Peter. So first of all, let's start with our customer base and customers and what might happen or not happen in tariffs. As I said in my comments, the visibility is not great around what the future holds. But if I think about the dynamics of handset costs, it's probably important for us to take a step back and realize we're dealing with SKU costs on handsets right now that are quite a bit more expensive than they were even four years ago or three years ago.

And whenever those dynamics have occurred, we've come up with different solutions in the marketplace that ultimately allows the customer to manage through those things. Customers, of course, make choices from their point of view as to what they wish to do like possibly extending life cycles of handsets.

And we've done that within the context of our business model. Even though we've been seeing average cost of handsets increasing over time, as you know, we've done a nice job of improving the profitability and performance of this business.

So if tariffs are the next driver of an increase in the unit cost of handsets, I imagine we're going to have to go through the exact same play, which is, first of all, understand what the customer needs and then make some adjustments to how we support them in that process.

But that process is going to be taking that cost as we've traditionally done. And largely moving it through to the end user and fitting it into the business model of ultimately what we can afford to drive the right level of returns in our business.

And I think we've demonstrated over time that we've done that fairly effectively. So I think that if ultimately, costs are passed to us from those that we buy handsets from, unfortunately, for the customer, we're going to have to come up with some new ways for them to figure out how to digest that increase in pricing.

I don't see the business model dramatically changing to accommodate subsidy levels that are much different from what's out there today and the modest adjustments we make to those day in and day out, but we'll find different creative ways to build plans and approaches and supports that allow them to continue to use the network effectively and do what they need to do and feel good about it.

And I also don't know -- I mean, if I step back and think about consumer behavior in this, handsets are just one part of a broader ecosystem of decisions that consumers are going to have to make on goods and services. And if their flat panel TV in their house is going to be more expensive and if their laptop is going to be more expensive and how they choose to manage this dynamic within that ecosystem. I think we're all going to learn, but I feel pretty good that we've demonstrated we can get through that cycle.

In terms of the growth environment, look, I thought we've given you some pretty good views around how we're managing costs across the business in its entirety. It's not just Consumer Wireline where we laid out for you in the Analyst Day what we're doing across the entire wireline business.

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And there's certainly in that $6 billion pool that we're looking at, plenty of opportunity to address things that we can move forward and readjust and we're being pretty diligent about that. But we're also improving other parts of our business actively and we've shared some of that with you. We've talked about what we're doing broadly across our call centers.

We talked to you about how we're getting more efficient in our software development and our information technology organizations. Shared with you that we've done a lot better in how we've managed our digital channels for acquisition and customer awareness. And that's before I think we've really gotten good at the operational side of our digital channels, which we're investing pretty heavily in that.

I think we can have some additional uplift in the efficiency of how we bring customers into the business and support them. So I think we gave you an indication that we're very comfortable with our guidance for this year as there's a lot of places we know we can go and operate the business a little more effectively and continue to work our expense lines more aggressively.

And I think you saw that in the first quarter. We clearly invested a little bit more in customer acquisition, but I'm pretty proud of the overall margin performance that the team delivered. And how we balance those things out, and I think we know how to do that, and we'll continue to do that going forward.

Pascal Desroches - *AT&T Inc - Chief Financial Officer, Senior Executive Vice President*

Peter, one other thing to add, Q1 when you look at it, it was impacted by launch expenses associated with our guarantees. So the organic expense performance was really, really good.

Brett Feldman - *AT&T Inc - Senior Vice President, Finance & Investor Relations*

Thanks, Peter. We'll go to the next question, please.

Operator

Benjamin Swinburne, Morgan Stanley.

Benjamin Swinburne - *Morgan Stanley - Analyst*

Thanks. Good morning. Two questions. John, I doubt you'll answer this specifically, but I figured I'd ask anyway. There was a press report back in March around AT&T and talks to acquire Lumen's mass market consumer fiber business.

Just curious if you had any comment on that or maybe just if you can't or want to talk more broadly about how you're thinking about inorganic investments at AT&T just given the transformation over the last few years, but also the success you're having with your fiber strategy in general.

And then I was curious if you could talk a little bit more about the FCC's recent orders on legacy infrastructure. It sounded like you thought maybe you could move quicker. I don't know if that's on wire centers or that $6 billion pool or kind of all of the above, but could you come back to that comment and tell us what's happened and how that may impact your ability to take costs out of the business even faster than you have already laid out for us? Thank you very much.

John Stankey - *AT&T Inc - Chairman of the Board, Chief Executive Officer*

Good morning, Ben. I'm not going to make any comments on rumors and speculation that you referenced. What I can tell you is I'll repeat what I've said about inorganic activity in the business. I always keep my mind open to something that I think can improve value for the shareholder that's clear and centered on what we have laid out as our key strategic trust in the business, and that's to be the best in connectivity.

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I've articulated that anything that allows me to accelerate what I believe is a reordering of assets for converged connectivity in the markets, it becomes a make buy kind of analysis, which is I know what I can make it for, and I have plenty of opportunity to make more infrastructure investment in the business and across the nation, demonstrated that we're pretty good at that, completing our recent commitments early, our cost curve we've been giving you a lot of insight into how effectively we've been doing that.

On our fiber build, I think you should take some satisfaction on what you see happening in the fixed wireless growth. That's a artifact, not exclusively, but partly because of our modernization efforts in the wireless network that as we complete those things, it opens up geographies that we previously had closed that we can now sell into.

So you can see that we're getting operational execution around those things. And as long as I can build opportunity and do it effectively, that's a good thing to do. And I think it's a sensible deployment of shareholder capital.

If something were to come up inorganically that looked like rivaled those types of business cases or looked similar to that or gave me a way to accelerate that were the market power of accelerating it did something good, of course, I'd be open to it.

And as I've said earlier, I continue to be looking for opportunities in the business to find those nice tack-ons, bolt-ons, add-ons to our connectivity business that are little less capital intensive that might be that next thing that we can interest our customers in and making an incremental purchase decision from us that is complementary to connectivity and how they use our core services.

And don't know if and when something like that will pop around. But certainly, if it does, I would spend a lot of time understanding whether or not we can build some organic value for the shareholder as a result of it.

On the FCC order, here's what I would tell you right now. I think we're in a great place. We talked a little bit about this in December when we had you all together, and I think I'd characterize it at the time that we've been working on this for a number of years and that there had been a lot of pick and shovel work to get to this time, and a lot of which we weren't necessarily exposing you to or talking about.

But to get to the moment we talked about in December took years of work at the state level, took a lot of work internally about reordering data and structuring organizations differently to get focused on things, to get the work set up properly.

And I felt like we had it all in a pretty decent package, and I used the characterization in December, and I said it felt like we were about ready to move from maybe an environment where there was a bit of regulatory headwinds or little reticence to change to one with regulatory tailwinds. And that ended up being true.

And I think this FCC since it ceded, what, 90 days-ish ago has already moved to take out some procedural steps on the applications that we had pending to begin doing the things at wire centers that we articulated to you in December, we needed to do to pull those costs out.

And I think we're sitting at somewhere along the lines right now, about 25% of our wire centers where we have, what I would call, fairly clean sailing to act on all the plans that we told you we needed to do to sunset. And we have more applications now pending, and we're actively working with the FCC about how to do that more effectively.

I would tell you right now, my bias internally as I talk with our folks is I think we now are focused on the effectiveness of our execution and less on the effectiveness of our operational execution of less on the effectiveness of the execution of our legal and regulatory affairs organization.

And I'm going to say that deliberately because internally, I know there'll be a couple of departments that we'll be running down the hallways cheering and skipping, and saying that they're not on the critical path anymore. And that's the way I feel. And I feel that we are now at a point where our operating groups need to go get the work done and there's plenty of runway in front of them to do that.

And they are doing that and beginning to step up on that. That's how the management team is focused. We still have regulatory steps to get through, but I'm not worried about those becoming inhibitors for us to achieve the guidance that we put in front of you back in December.

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Brett Feldman - *AT&T Inc - Senior Vice President, Finance & Investor Relations*

Thanks, Ben. We'll go to the next question.

Operator

John Hodulik, UBS.

John Hodulik - *UBS Securities LLC - Analyst*

Great. Thank you. And I think just two quick ones. First, for Pascal, is there any way to frame the impact of the -- or quantify the impact of the higher upgrades that you're seeing so far in the second quarter? I guess, you gave us the free cash flow for the quarter, but anything on what that could do to wireless margins or wireless EBITDA growth? That's number one.

And then on the business side, if we add back the vendor adjustments, it looks like EBITDA was only down about 5%. Is this a good rate going forward? I mean, obviously, the trend had been above 20%. You guys have done a great job on the cost side, but is this about the level that we should expect as we look out over the next 12 months in that segment? Thanks.

Pascal Desroches - *AT&T Inc - Chief Financial Officer, Senior Executive Vice President*

Hey, John. Thank you for the question. First on upgrades. Here is the way I think you should think about it. probably late in Q1 and as I mentioned in my comments in Q2, we had accelerated Q2. We saw an acceleration of upgrades. We think some of this may be a pull forward in anticipation of the tariffs.

So in terms of Q2, I would expect elevated levels of upgrades. I mean, you see Q1 should be as a benchmark. I think thinking about it in the context of at least around the same levels. And so, as you make your way through the balance of the year, of course, we're always impacted by the normal seasonality that you get with upgrades being more heavily weighted towards the second half of the year.

But I think that's a good way to think about our upgrade and might be seen how much of this was a pull forward in second half. In terms of Business Wireline performance, I would start and say, we're really pleased with the execution of the team. There's a new leadership team in place there, and they've come in and I think they've gotten the organization focused on driving growth in connectivity revenues, and we're pleased with how that is going.

But importantly, they've taken some steps to really rationalize some of the cost base, recognizing that they have a pretty meaningful base of legacy revenues. I think this quarter, you benefited from price increases on legacy plans. Those price increases typically come with higher churn as you make your way through subsequent quarters.

So I think as you think about the balance of the year, we do expect some of the trends to moderate and we will see a pickup in legacy revenue declines as you make your way through. Also, this quarter, we benefited from the settlement I mentioned in my commentary that was think about that as around $45 million. So we're really pleased, but I think it's too early to really change our outlook for that segment.

Brett Feldman - *AT&T Inc - Senior Vice President, Finance & Investor Relations*

Thanks, John. We're moving to the next question, please.

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Operator

Michael Rollins, Citi.

Michael Rollins - *Citigroup - Analyst*

Thanks, and good morning. Two topics, if I could. First, AT&T reported an acceleration of fixed wireless net adds and coming at a time when you're expanding the mid-band 5G coverage. So curious if you can give us an update on how AT&T is looking at the penetration and financial prospects from fixed wireless?

And do these network enhancements gives you an expanded opportunity to take more share of broadband outside of the [50 million-plus] passings that you're trying to get to with fiber by the end of this decade?

And then just second, on ARPU. Just curious, when you think about the pricing actions that AT&T has employed over the last couple of years and you set that against the competitive backdrop and macro landscape, could you just frame the opportunities for AT&T to continue to improve ARPU for both postpaid phones and the fiber subscribers. Thanks.

John Stankey - *AT&T Inc - Chairman of the Board, Chief Executive Officer*

Good morning, Mike. So as I just mentioned, part of what's happening on the fixed wireless side is as we've done the modernization of the conversion of the Alcatel Lucent -- excuse me, Nokia, I'm dating myself. The Nokia footprint into the Ericsson footprint. That conversion as we go into those geographies opens up territory because we had not done the modernization to the level we'd like with all of our spectrum assets and the most modern equipment, they typically were not open for fixed wireless access.

And that has opened up some footprint that will continue to open up as we go through that over the course of the next couple of years. And I would also tell you on the margin, we're seeing better performance off of that investment than what we would have anticipated.

So as we kind of thought about one of the economic reasons why we felt this was the right move, we understood that we would get some better yields off the network, given the equipment deployments we were using the more modern equipment, some of the strategies around how we would actually integrate on a single vendor solution and those are helping.

We've also been doing -- the network is a living breathing thing. We've gotten better yield and traffic management in some ways that we can use some of those efficiencies back against the network in places that maybe we hadn't anticipated two years ago that have opened up some opportunity.

And I would just tell you our strategy overall around how we think about using fixed wireless access has not changed. But what's happening is I think you're seeing the learning benefits of focus. The business in my estimation has a much clearer point of view right now on the multiyear capital deployment and what we're doing and what footprint in terms of our investment.

And so, it's not just about where you're deploying fiber and where you aren't. It's about what you need to do to make sure that you can transition out of legacy services so that you have the right infrastructure in place, whether it be wireless, fixed to serve those customers.

I think that clarity and the repeatability of that month in and month out is allowing all the organizations that are necessary to serve customers and sell product to get a lot better at what they're doing. And so, we're moving up that learning curve of where we want to deploy our fixed wireless muscle, all consistent with what I talked about before, which is we'd like to use it as a catch product from legacy broadband services that's we're not going to invest in building fiber in.

We'd like to use it as a holding product when we know we're going to be building fiber within a period of time, but we can provide a better solution or some market penetration on a converged basis until that fiber gets there.

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What we can do in the business segment where the portfolio of the business is clearly a great match for fixed wireless long term because of their usage characteristics and demand characteristics. All those reasons that we think are the right use cases to deploy, we're just getting better at our muscles around how to find those customers and how to activate that through our various channels and partners to drive that volume.

And so, I feel really good about the customer base that's coming in. We continue to test that and look at it and say, are we getting the right customers that are going to have longevity, they're going to be profitable. And I think we'll continue to find places to ramp this modestly as we move forward.

But nothing's really changed in our point of view other than we're getting better at all aspects of how we run our business, yields on the wireless network efficiency, lining up markets to distribution channels, coming up with the right offers that we can make accretive over the long haul. And I think that just means we're going to get better over time.

On the ARPU side, look, I'm sorry to sound like a broken record, we're going to continue to do what we've done pretty consistently over the last five years, which is we're going to find opportunities in our customer base where we think utility and value has improved tremendously.

And because of the performance of the products and how customers are using them, allow us to have opportunities to possibly adjust what that means for pricing. I think we have done that pretty artfully over the last several years. You see the right trends in our ARPU performance. I think, in this quarter, you shouldn't see anything in there that you look at and say, that's disconcerting or different than what you've been seeing over the last number of years.

We're also going to be very sensitive to the realities of the markets we're in. If we walk into a slower growth economic environment or there's a dynamic that goes on later in this year where growth is not what we expected it to be, then we'll be smart about how we work with our customers over the long haul and make sure that we do the right thing to keep the franchise healthy and make sure that we're providing value in the right ways back to those customers.

So I will tell you great products, superior products generally allow you to have a little bit more pricing flexibility. And I've been saying all along, you should expect that since fiber is the best fixed broadband product in the market over time, you're going to continue to see margins improve on it. You're going to see it scale operationally. You're going to see it get more profitable. And you are seeing that, and I don't think we're at the end of that runway of that dynamic continuing to materialize.

Brett Feldman - *AT&T Inc - Senior Vice President, Finance & Investor Relations*

Thanks for the question, Mike. We're going to the next one, operator.

Operator

Bryan Kraft, Deutsche Bank.

Bryan Kraft - *Deutsche Bank - Analyst*

Thanks. Good morning. Just regarding Pascal's churn comments, I wanted to follow up there. I think you said, Pascal, that 2Q would be similar to 1Q and then second half would be characterized by typical seasonality.

I assume that means we should look at the historical sequential step-ups in the back half of the year off of 2Q and estimated churn. Is that the right way to think about? And also, in general, how much of the higher churn is a function of, what you say, contract roll-offs picking up versus increased competitive intensity?

And then lastly, I was wondering if you would just comment on your outlook for gross add performance. Would you expect this momentum in year-over-year gross adds to continue?

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And lastly, if upgrades are being pulled forward due to tariff concerns, do you think switching between carriers is also being pulled forward? It seems like both yourselves and Verizon yesterday are talking about pretty strong gross add performance currently. Thanks.

Pascal Desroches - *AT&T Inc - Chief Financial Officer, Senior Executive Vice President*

Hey, Bryan. Thank you for the question. Remember, coming into the year, we said that we would have a higher level of contract roll-offs this year. And we also said that we would expect the overall industry growth to be lower than it has been.

Those two factors were baked into our expectations that this year, we would have higher churn than we saw last year. I think as a good rule of thumb, 2023 was probably a year where we had similar levels of contract roll-offs that we're seeing in 2025.

So I think that's a good benchmark for thinking about how this is playing out in 2025. And as I would expect, as you look at sequential performance in churn for the back half of the Q2 and the back half of the year, I would tell you, 2023 is probably a good proxy to use as your benchmark.

In terms of gross adds, what I can tell you is what we've seen so far in the second quarter. We've continued with really good performance, and we're happy with how the team is executing and competing for the gross adds in the marketplace.

John Stankey - *AT&T Inc - Chairman of the Board, Chief Executive Officer*

Bryan, I'd just add in. I mean, obviously, we gave you some guidance and we characterize for you what we expect growth in our wireless business, and we do expect to continue growing our customer base and being competitive in the market to do that.

And it's a math issue, it turns up a little bit. The gross is going to end up going up a little bit as a result of that. And that's kind of the plan we're operating to right now, and that's all baked into what we just articulated for you moving forward.

What I'd stress is the comments I made earlier in the call, which is how we're focusing on which customers to bring in as we're driving those gross additions and our focus on the high-value customers, especially in the converged space. And when you -- LTVs are going up because you consolidate customers and we just gave you an indication that that's the case, then you obviously maybe invest a little bit differently as a result of that.

And what I think we're doing, I'm very comfortable with relative to the customers I see coming in and our ability to put incremental products and services on them that have durability and longevity and whether that's a fiber customer that we're adding wireless onto or the other way around or it's the newly consolidated fixed wireless access customer that has good runway because of the profile of the network in that area that ultimately consolidates wireless lines.

I'm willing to invest in those in the right way because of that increased lifetime value. And I think we're doing a good job of making that happen, and I'm very comfortable running that play moving forward to the balance of this year.

Brett Feldman - *AT&T Inc - Senior Vice President, Finance & Investor Relations*

Thanks for the questions, Brian. We go to the next question, operator.

Operator

Sebastiano Petti, JPMorgan.

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Sebastiano Petti - *JPMorgan - Analyst*

Hi. Thank you for taking the question. Just wanted to maybe, I guess, kind of wrap in Bryan as well as John and Mike's questions, just help us think about the comfort or the confidence in getting to the higher end of the Mobility service revenue, I guess, more particularly the EBITDA guidance of the higher end of 3% to 4%.

Just what underlies or underscores that confidence from the management team just given the higher activity that we're seeing here, obviously, cost opportunities, but just you could double-click on that a little bit?

And then, John, going back to perhaps what you talked about of the longer-term plans were based on low single-digit GDP, moderating inflation and the management team's ability to adjust their operating posture to prioritize free cash flow. I mean, does that put your 45 million fiber target passings at risk at all as you think about or extrapolate over the next several years? Thank you.

Pascal Desroches - *AT&T Inc - Chief Financial Officer, Senior Executive Vice President*

Let me start. In terms of how to think about Mobility, this past quarter, we delivered 3.5% growth. It's important to keep in mind that included a cost of launching our AT&T Guarantee. And so, we were able to absorb that higher promotions and still delivered 3.5% growth. As I look at the rest of the year, here are couple of things to keep in mind.

There are some adjustments we are going to we've made on auto bill pay discount, which should also help the balance of the year. Also, we said we are accelerating some of our cost actions that were planned for later in the year. We're moving those forward, that will help AT&T Mobility from here. So overall, we feel really good about the marker we put out there at the beginning of the year, and we continue to march towards that.

John Stankey - *AT&T Inc - Chairman of the Board, Chief Executive Officer*

Sebastiano, I guess, to answer your question, obviously, like everybody else, my visibility is not perfect right now. I wake up every morning expecting that I could see something today that I hadn't seen before that we have to adjust to. I feel good about our flexibility in being able to do that given where the business is right now after several years of really hard work to give us that latitude.

The way I think about our capital allocation, and it's really related to how I characterize our confidence in moving forward with the share buyback right now trying to be pretty deliberate and foundational and strategic in how we do these things. And as I shared, I think fiber is a fundamental element to communications networks moving forward. I view it as a very long-lived asset.

We're investing in this, not for this year or next year. We're investing in it for decades. I view the restructuring and reordering of the industry that we're in a fairly seminal moment around that and that there's a window here as a result of that reordering. And that window is not going to stay open forever. And I look at the characteristics of the business case of fiber.

And I would say that when you have a deployment and an investment that doesn't require what I would say is new market development, but it's a share take, the growth environment in aggregate is less of an impact on it. It's not like all those customers are going to disappear. There's still homes out there with people in them that want a better service.

And so, historically, my bias is when you get into these economic cycles, you use your balance sheet and your strength to continue to press your bets that are the right long-term bets are going to help you be in a better position structurally. And as I think about our investments in fiber, I have a lot of reasons to think about that's an important structural long-term bet that we want to make sure we continue to push ahead on.

Our supply chains in pretty good shape on that front. We've talked about this several times. We have longer-term contracts with our suppliers. There's been a lot of work to reshore and manufacture in the United States key elements of it and the most important element of building fiber is services. It's people power.

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And those all are people who work here in the United States, and they're not subject to the dynamics of tariffs and things like that. So I feel like we can manage through the cost side of it pretty well. And so, my bias would be that that's a place we continue to lean in and push on and execute to our plan.

Brett Feldman - *AT&T Inc - Senior Vice President, Finance & Investor Relations*

Thanks for the question, Sebastiano. We're going to the next question, please.

Operator

Jim Schneider, Goldman Sachs.

Jim Schneider - *Goldman Sachs - Analyst*

Good morning. Thanks for taking my questions. Two, if I may. First is on the overall health. How would you characterize the state of the consumer at this point? Obviously, many moving parts in this market. But do you see any evidence of consumers less willing to trade up or even trading down or consumer credit quality issues that may be impacting things over the next couple of quarters from what you can see today?

And the second is on capital allocation. Can you maybe just frame your earlier comments on M&A and buybacks in terms of is the buyback guidance you've provided independent of any inorganic activities you might consider? Or is it contingent on it? And if it's contingent, is there a minimum level of buybacks you would not go below? Thank you.

John Stankey - *AT&T Inc - Chairman of the Board, Chief Executive Officer*

Hi, Jim. So I think the short answer to your question is I'm not seeing anything right now any change in any dynamics of consumer behavior that I would say is out of pattern or out of trend of the business with maybe a couple of things on the margin.

One is, I think the prepaid market is a little bit slower than it had been. I think that's probably an artifact of some degree of immigration, but I don't know that's economic per se. I'm not concerned about it. It's what we had expected and have been sharing with you that I would have expected that dynamic to evolve as the policies in the United States changed around it.

And I think what Pascal shared with you earlier, which is maybe there's some behavior in the market right now where some people are trying to get ahead of perceptions of what might happen to unit costs on things that are important to them and pre-buying as a result of that.

And we'll see if that is, in fact, the case. Our sense is that there's a little bit of that going on and how that sustains itself over what period of time, and when does that shift, I don't know. But other than that, I think that's all I've seen. I certainly watch what's going on in the broader economy.

I don't have any news to break on that. It's not my news. It's what I see macroeconomists representing. It's what I hear from retailers. We continue to pay attention to it. But as we started out, and as I shared with you in my opening comments, the good news is we're not showing up. We're not that dining out experience. We're not that discretionary choice.

We're pretty far down the list of things that people are going to part ways with that they're managing dollars and cents, and I think that's a good place to be. And I believe the combination, as I said earlier, our opportunities to run our business more efficiently, our opportunities to take share in places and still grow even if it's growing on more value-oriented plans portend well for the company, even if some consumers are going to put off choices on some upgrades or incremental purchases in places.

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Kannan Venkateshwar - *Barclays Capital Inc - Analyst*

There's a question on the --

John Stankey - *AT&T Inc - Chairman of the Board, Chief Executive Officer*

I'm sorry, the capital allocation, I apologize. It's small trivial question. Look, we gave you our guidance and our commitment in our order of capital allocation for a reason, and we intend to execute it, carry it through, and that's a priority for this management team in the business to do that. I can't see everything in the future. I don't know that something doesn't come up. But we're starting down this path.

Our confidence in our share buyback is indicative of the fact that we're starting it early, that we're doing at a time where I think some would say that visibility isn't as great right now as it was six months ago because we believe strongly in it. We think it's the right thing to do, and I'm committed to executing and carrying it forward.

Brett Feldman - *AT&T Inc - Senior Vice President, Finance & Investor Relations*

Thanks for the question, Jim. Operator, we're going to take our last question.

Operator

Kannan Venkateshwar, Barclays.

Kannan Venkateshwar - *Barclays Capital Inc - Analyst*

Thank you. So John, just from a macro environment perspective, I guess, is there a certain growth framework you're working with, especially on the wireless side? I mean, in terms of either trying to retain a certain amount of share in the market or a certain amount of activity. Is that something that sets a floor in some ways in terms of managing your P&L on the Mobility side?

And then on the copper decommissioning side, I think there's been a couple of real estate sales, at least for some of the wire centers earlier this year. Is there more opportunity to extract capital out of that business potentially at a faster pace at some point? And what should we look out for in terms of goal posts as that process moves along? Thank you.

John Stankey - *AT&T Inc - Chairman of the Board, Chief Executive Officer*

Sure. So the way I think about it and I've articulated this before is I'm very focused on what our shares of revenues are within that industry as we talk about things like our gross adds or net adds inflated and the value of a particular net add or gross add. The way I try to get the management team centered on it is if we can drive recurring service revenues and we have the right margin structure, that's going to be a good thing for the business.

And I think if you go back and you look at what we've been able to do over the last couple of years, we've done a really good job of managing our share of service revenues in the markets that we're actively participating in, and I think we've done that in a way that's returning.

And I believe that's where I should have the team focused and it's where we'll continue to be focused, always with the mindset that I think to be a really great company, we're ultimately going to have to be a share leader in places.

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And I'm fully aware that we're not in that position right now. And I would like to see our team achieve that. I don't view that as a quarter-to-quarter thing. I don't engineer a quarter's net adds or gross adds based on some assumption around that. But I step back, and I say, what are the right things we need to do structurally in the business that allow us over time to affect that kind of a share shift.

How do we get the asset base lined up properly. How do we position the brand in the most effective way? What do we do to ensure that we've got the right kind of innovation and converged offers in place that will ultimately yield the shifts in share that designate us as a market leader in terms of the overall revenues that are available at the pool of the market that we choose to play in.

And I think we're making steady progress across those things. I just gave you examples of the modernization that we're doing in the infrastructure that I think will serve us well for the long haul. You see what we're trying to do to reposition the brand right now and establish the framework of how we continue to evolve that platform and the value proposition to the customer on that platform.

When I talk about where we're going on the innovation of converged products, those are important things that come in with it. So I think that's how I try to get the management team focused as opposed to saying in this quarter, I need to engineer for this number because of some expected goal of me being a share leader in a position. I think that's earned over time, not earned in a 90-day cycle.

In terms of where we have additional opportunities, we've given you, I think, about as good a visibility to our business over the next three years as we've done in a long time. When we talked to you in December, we outlined for you that we have a pretty good handle on that package of opportunities.

We restructured the business, exit legacy businesses, exit footprint, that there's a lot of pools of costs and opportunity in that. We have taken what I believe are achievable and reasonable estimates of that and factored them into our guidance over the next three years that we've provided to you.

And some of those things like where we think we have higher value assets for disposition that we can use to reinvest back in the business as cash flows to modernize things or pay for fiber investment. We've done the best planning we can about that and incorporated those things that we can catch.

But I'm going to be honest with you, when you're disassembling infrastructure that's been built over 100 years, sometimes you're going to miss something. Sometimes, there's going to be an opportunity that presents itself that you didn't expect.

I mean, maybe we were wrong in our estimates of what copper might sell for in the market when it's reclaimed. And it sells higher than we expect and there's incremental money that comes from it. But we've done our best of giving you our point of view of what we think all those things in the mix master, including property dispositions and things that we can work through are going to yield back to the shareholder base. And I'm not in a position to tell you that I think that there is a remarkable upside or downside you should bet on at this juncture.

Folks, I appreciate you being with us today, and I thank you for your continued interest in AT&T. As I said at the beginning of my comments, I feel really good about where we started the year, coming off what was a really solid and foundational year, and I couldn't be more delighted in the fact that this is the quarter that we're making a pivot and adjusting our capital allocation to begin a buyback program that we worked really hard to get to, and can demonstrate to our shareholders that their patience with us has been rewarded.

So thank you very much for your time, and everybody have a good rest of the week.

Operator

Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your minds and have a wonderful day.

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